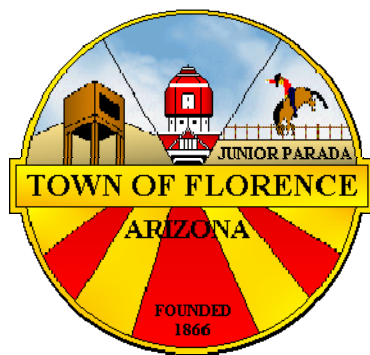


**ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



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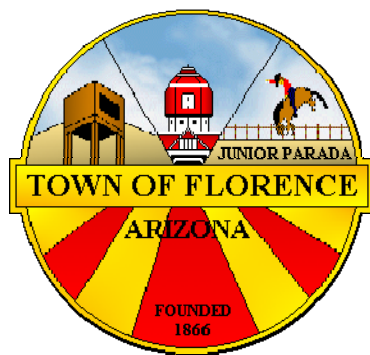
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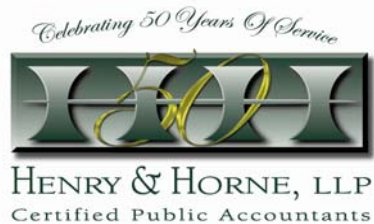
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## **FINANCIAL SECTION**





## Independent Auditors' Report

The Honorable Mayor and Council  
Town of Florence, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the Town), Arizona, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence, Arizona, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Florence failed to use highway user revenue fund monies received by the Town of Florence pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town of Florence solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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The Honorable Mayor and Council  
Town of Florence, Arizona  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2007 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

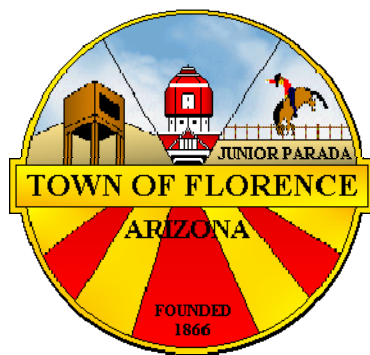
A handwritten signature in black ink, appearing to read "Kay. Hae, CPA". The signature is stylized with a large initial "K" and "H".

October 11, 2007



## **FINANCIAL SECTION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

This discussion and analysis is intended to be an easily readable breakdown of the Town of Florence financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter that begins on page one and the financial statements that follow.

### Report Layout

Besides the Management's Discussion and Analysis, (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, culture and recreation, community development, public works and general governmental administration. Business-type activities are water, sewer, and sanitation. The government-wide statements include the Statement of Net Assets and Statement of Activities. The Town's component unit, the North Florence Improvement District No. 1, Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 is included within the government type activities.

### Statement of Net Assets

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental and Business-type activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long term liabilities.

Net assets, the difference between assets and liabilities provide a measure of the Town's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the Town.

### Statement of Activities

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. The Town's major funds are presented in a separate column titled, "Other Governmental Funds". For each major

fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A is intended to explain significant changes in the financial position and differences in operations between current and prior years

#### Town as a Whole

A condensed version of the Statement of Net Assets at June 30, 2007 follows.

#### Condensed Statement of Net Assets (in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$36,600	\$30,075	\$ 7,103	\$ 7,456	\$43,703	\$37,531
Capital assets	46,689	38,707	12,439	10,933	59,128	49,640
Total assets	<u>83,289</u>	<u>68,782</u>	<u>19,542</u>	<u>18,389</u>	<u>102,831</u>	<u>87,171</u>
Other liabilities	2,970	2,967	661	456	3,631	3,423
Long-term liabilities	7,236	7,231	5,017	4,834	12,253	12,065
Total liabilities	<u>10,206</u>	<u>10,198</u>	<u>5,678</u>	<u>5,290</u>	<u>15,884</u>	<u>15,488</u>
Net assets:						
Invested capital assets						
net of related debt	38,967	31,151	7,146	5,840	46,113	36,991
Restricted	24,945	21,237	894	795	25,839	22,032
Unrestricted	9,171	6,196	5,824	6,464	14,995	12,660
Total net assets	<u>\$73,083</u>	<u>\$58,584</u>	<u>\$13,864</u>	<u>\$13,099</u>	<u>\$86,947</u>	<u>\$71,683</u>

#### Statement of Net Assets at June 30, 2007:

During fiscal year 2006-2007 several major events changed the balance of net assets:

The Town's overall financial position has improved during the year as reflected in the increase in net assets above. Cash and investments increased \$7,298,423 due to increases in intergovernmental revenue, increases in user fees, and budgeted capital projects reallocated into future years. Liabilities remained consistent, slightly increasing. Additionally the unrestricted net assets of both the governmental and business-type activities amount to \$9,171,000 and \$5,824,000 respectively. This provides a useful measure of the Town's net assets available for spending at the end of the fiscal year.

There are restrictions in net assets of governmental assets of \$24,945,000 business type activities of \$894,000. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation construction projects and the repayment of debt. Within the business type activities are bond proceeds, and debt service reserves.

#### Governmental Activities

Addition of Infrastructure: The largest change was the inclusion of general government capital assets and infrastructure (land, road and bridge improvements, streets, etc.). New additions to Streets infrastructure was Easements-\$5.4 million and Improvements of \$584,135.

Infrastructure and other improvements total approximately \$46.7 million with street related components accounting for \$29.2 million of that entire total. The non-land portion of improvements, are now depreciated and the depreciated value at year-end is \$16.4 million. Long term debt totaled \$7.9 million. The increase was due to Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2, political subdivisions of the Town, issuing GO bonds in the amounts \$445,000 to fund infrastructure.

#### Business –type Activities

Infrastructure and other improvements total approximately \$12.4 million. The non-land portion of improvements, are depreciated and the net value is \$5.4 million. Long term debt totaling \$5.3 million reflects monies borrowed from the Water Infrastructure Financing Authority for the new sewer plant which was estimated at \$7.5 million.

The Water Fund added \$39,047 in capital purchases. This included Engineering on a water line extension for Florence Immigration and Refugee project-\$3,000, water line tie-in with ADOC-\$9,886, Plant Road water line extension-\$19,774 and Project U34 Well #3 Replacement.

The Florence Sewer Fund continued its Sewer Plant improvement project, expending \$1,147,795 for construction of the Sewer Plant on Plant Road.

The Sanitation Fund added two Garbage Trucks in the amount of \$401,483. Development Impact Fees funded \$170,000 of the cost and a short term loan of \$200,000 from the Capital Improvement Project Fund funded the other.

Statement of Activities for the Year Ended June 30, 2007:

A summary of the statement of activities follows:

	Changes in Net Assets (in Thousands)		
	Governmental Activities	Business-type Activities	Total Government
	2007		
Program revenues			
Charges for services	\$ 3,483	\$ 4,199	\$ 7,682
Operating grants	581	-	581
Capital grants and contributions	498	-	498
General revenues			-
Taxes	4,356	-	4,356
Intergovernmental	9,480	-	9,480
Donation of capital assets	7,712	132	7,844
Miscellaneous	1,589	474	2,063
Total revenues	<u>\$27,699</u>	<u>\$4,805</u>	<u>\$32,504</u>
Expenses			
General government	4,451	-	4,451
Public safety	4,116	-	4,116
Highways and streets	2,314	-	2,314
Public works	82	-	82
Culture and recreation	1,564	-	1,564
Community development	510	-	510
Interest on long-term debt	513	-	513
Water	-	1,376	1,376
Sewer	-	1,491	1,491
Sanitation	-	577	577
Non-Major Enterprise	-	247	247
Total expenses	<u>\$13,550</u>	<u>\$3,691</u>	<u>\$17,241</u>
Excess before transfers	\$14,149	\$1,114	\$15,263
Transfers in (out)	349	(349)	-
Change in net assets	14,498	765	15,263
Beginning net assets	<u>\$ 58,584</u>	<u>\$ 13,099</u>	<u>\$ 71,683</u>
Ending net assets	<u>\$ 73,082</u>	<u>\$ 13,864</u>	<u>\$ 86,946</u>

### Government Activities

The cost of all governmental activities this year was \$17.2 million. \$7.7 million of this cost was paid for by those who directly benefited from or contributed to the programs. \$1.1 million was subsidized by grants received from other governmental organizations for both capital and operating activities, and \$4.4 million was financed through general Town taxes. Other governmental revenues, including inter-governmental aid and interest amounted to \$11.5 million. Donations of capital assets were \$7.8 million.

The Town's governmental functions include the following: general government, community development, culture and recreation, public safety and public works.

Governmental program expenses increased from the prior year. Net costs of services decreased because of increased user fees.

### Business-type Activities

The cost of providing all business-type activities this year was \$3.7 million. All of this cost was paid by users.

The Town's business-type programs include the following: water, sewer and sanitation.

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2007 the Town had invested \$78 million in capital assets as reflected in the following table. Assets increased from the prior year in the amount of \$8.1 million. Of the total additions reflected below, \$11,378,457 represents current year infrastructure additions. The majority of the increase in capital additions is due to the infrastructure assets acquired through annexation in the streets in the Governmental Activities. Accumulated depreciation reflects the allowance for aging of assets and the result of assets less accumulated depreciation equals the new value of fixed assets in total.

The following table reconciles the changes in capital assets.

	2006	Additions	Dispositions	2007
Total Town				
Assets	66,896,571	11,378,457	(222,044)	78,052,984
Depreciation	<u>(17,256,334)</u>	<u>(1,835,308)</u>	<u>220,359</u>	<u>(18,871,283)</u>
Net Town Assets	\$49,640,237	\$9,543,149	(\$1,685)	\$59,181,701

Additional information of the Town of Florence capital assets can be found in the notes to the financial statements.

### Debt Administration

As of year-end, the Town had \$13 million in debt outstanding compared to \$12.6 million last year. There were additions to debt to the Governmental Activities. Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 had debt issued in the amount of \$445,000. Principal was reduced in the General Government groups by \$226,328. Principal was reduced in the Sewer Fund by \$308,641.

#### **Town of Florence Debt Schedule June 30, 2007**

<b>Financing Agency</b>	<b>Purpose</b>	<b>Date of Loan</b>	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Loan Amount</b>	<b>Amount Retired</b>	<b>Balance</b>
National Bank of Arizona	Vehicle/Equipment	12/20/00	7.13%	12/20/10	\$600,000	\$600,000	\$0
Julie Giles	Land Purchase	01/02/02	6.00%	07/01/21	\$800,000	\$125,210	\$674,790
National Bank of Arizona	Streetlight Purchase	03/01/03	3.00%	03/01/10	\$219,000	\$130,115	\$88,885
Toshiba/Danka	Copier	10/22/03		10/22/05	\$21,544	\$21,544	\$0
Bank of New York Trust	Purchase Asset of Utility Co.	01/94	8.45%	8.45%	\$1,525,000	\$790,000	\$735,000
U.S. Bank	Town Construction	1/97	5.40%	5.40%	\$2,495,000	\$1,785,000	\$710,000
Water Infrastructure Authority of Arizona	Sewer Expansion	1/3	3.339	3.339	\$7,500,000	\$814,969	\$5,293,488
Wells Fargo Bank	Infrastructure	6/6	4.30%	07/01/30	\$2,464,000	\$0	\$2,464,000
Wells Fargo Bank	Infrastructure	6/6	4.30%	07/01/30	\$2,555,000	\$0	\$2,555,000
Stone & Youngberg	Infrastructure	10/2006	5.40%	07/01/31	\$194,000	\$0	\$194,000
Stone & Youngberg	Infrastructure	11/2006	5.40%	07/01/31	\$251,000	\$0	\$251,000
Historic Preservation Foundation	Silver King Property	1/2007	0.00%	01/01/09	\$75,000	\$25,000	\$50,000

Additional information on the Town of Florence long-term debt can be found in the notes to the financial statements.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or sewer services and recreational playground facilities may not exceed 20% of the Town's secondary assessed valuation. Under the second test, a Town may not insure general obligation debt for general municipal purposes in an amount that exceeds 6% of the Town's secondary assessed valuation.



## Economic Factors

### Governmental Funds

The Town relies heavily on state shared revenues. During the year 47% of the general fund revenues were derived from state shared revenues and 48% of the Highway User Fund revenues. Because of the correctional facilities located within the Town limits, the apportionment of state shared revenues has assisted the Town in providing increased demand for services in the municipal limits. The retail picture has not provided sufficient transaction privilege tax revenues to sustain the operational costs of general government. The retail picture will depend upon future development of housing, commercial and industrial business within the community.

The following business developments have provided additional resources for the Town:

- Pulte Development Corporation
- Anthem Safeway Stores
- Anthem Safeway Fuel Station
- Anthem Wells Fargo
- Anthem Market Place
- Shasta Industries
- Poston Butte Golf Club
- Johnson Utilities, LLC

### Business-type Funds

The rates for the Water, Sewer and Sanitation Funds in Florence were increased starting in March 2007. This was to bring the revenues needed for support of operations, maintenance and debt service.

Development Impact Fees were re-evaluated and new fees became effective on August 21, 2007. The evaluation of fees was based upon the newly updated Capital Improvement Plan. A User Fee Study was also done to evaluate existing fees. The evaluation was based upon personnel time and costs. This study has not become effective as of yet.

### Next Year's Budget and Rates

The 2007-2008 fiscal year operating budget increased \$13,657,296 over last year. The operating budget was prepared with an increase in property tax rate from \$.9134 per \$100 Net Assessed Valuation to \$.9953 per \$100 Net Assessed Valuation. This is used to supplement the General Fund Revenues.

The 2007-2008 Capital Budgets for next year is limited to the following projects:

- General Fund for \$1,219,800 includes copiers, vehicles, furniture, equipment and improvements for various departments.
- Capital Project Fund \$5,809,793 for Town Construction projects.
- Highway User Fund for \$4,518,000 vehicles and equipment, and street and road improvements.

- Water Fund for \$948,060 for water meters, equipment, valves, hydrants, water line replacements and extensions, bore, and well replacement.
- Sewer Fund for \$1,141,030 for manhole replacements, main interceptor, sewer main extension and replacement, office improvements, one vehicle and sewer plant expansion, improvements and closure costs.
- North Florence Sewer Fund for \$111,030 for a copier, bore, lift station and a vehicle.
- Sanitation Fund for \$2,230,000 for garbage truck replacement and transfer station.
- Enterprise Impact Fee \$379,436 in various growth related projects
- Other Impact Fees \$4,445,282 in various growth related projects
- Various grants and special revenue for community improvements in the amount of \$1,224,569.

Town has set aside \$5,809,793 for capital projects for town facilities. The source of these funds comes from the General Fund, Construction Tax Fund and the 2% Food Tax Fund.

Total budget for town-wide Capital Improvement Projects is \$22,027,000.

We have established three Streetlight Improvement Districts in the Pulte Development area. This will provide a revenue stream through ad-valorem property tax to pay for expenses of the streetlights that directly provide the benefits to the users of the SLID.

We have established three Community Facilities Districts. These Districts are political sub-division of the Town and have the ability to levy assessments and/or ad-valorem property tax to the owners of the properties within the districts. Funds are used to repay debt associated with the sale of bonds that pay for the infrastructure costs which provides a direct benefit to the users of the individual districts.

Monitoring of existing programs and services will be continued for Budget Year 2007-2008. Cost-to-benefit ratios have been established through the Town's financial policy, and services that do not meet the threshold will be recommended for termination. Personnel costs and benefits continue to be monitored.

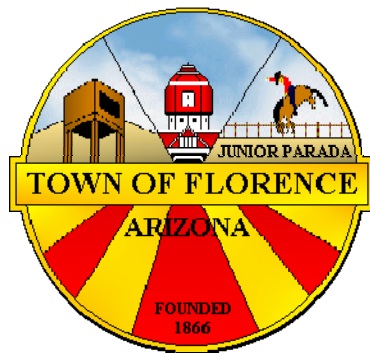
The Capital Improvement Plan has been updated by a CIP adopted during the budget process. This guideline will provide the town with a planning document to project capital purchases for the next seven years. The CIP will be updated annually.

#### Financial Contact

The Town's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Finance Director at 775 North Main Street, Florence, Arizona 85232.

## **FINANCIAL SECTION**

### **BASIC FINANCIAL STATEMENTS**



TOWN OF FLORENCE, ARIZONA  
STATEMENT OF NET ASSETS  
June 30, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 24,384,831	\$ 7,001,690	\$ 31,386,521
Receivables (net of allowance for uncollectibles)	1,482,039	548,261	2,030,300
Special assessment receivable	5,643,141	-	5,643,141
Due from other governments	305,562	-	305,562
Internal balances	447,326	(447,326)	-
Deferred charges	388,365	-	388,365
Prepays	377,773	-	377,773
Restricted cash equivalents	3,570,947	-	3,570,947
Capital assets			
Land and construction in progress	29,133,698	7,055,740	36,189,438
Other capital assets (net of accumulated depreciation)	17,555,482	5,383,514	22,938,996
Total assets	<u>83,289,164</u>	<u>19,541,879</u>	<u>102,831,043</u>
LIABILITIES			
Accounts payable and other current liabilities	1,722,837	-	1,722,837
Customer deposits	159,426	56,259	215,685
Accrued wages and benefits	140,172	-	140,172
Accrued interest payable	102,679	-	102,679
Retainages	-	293,001	293,001
Unearned revenue	158,725	14,535	173,260
Current portion of			
Compensated absences	199,799	20,383	220,182
Capital leases	32,421	-	32,421
Certificates of Participation	225,000	-	225,000
Notes payable	54,260	276,420	330,680
Bonds payable	175,000	-	175,000
Long-term portion of			
Capital leases	56,464	-	56,464
Certificates of Participation	485,000	-	485,000
Notes payable	670,530	5,017,068	5,687,598
Bonds payable	6,024,000	-	6,024,000
Total liabilities	<u>10,206,313</u>	<u>5,677,666</u>	<u>15,883,979</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,966,505	7,145,766	46,112,271
Restricted for			
Highways and streets	8,588,692	-	8,588,692
Grant purposes	397,180	-	397,180
Debt service	6,280,430	546,778	6,827,208
Special revenues	3,686,284	-	3,686,284
Capital projects	5,992,878	347,633	6,340,511
Unrestricted	9,170,882	5,824,036	14,994,918
Total net assets	<u>\$ 73,082,851</u>	<u>\$ 13,864,213</u>	<u>\$ 86,947,064</u>

See accompanying notes.

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 4,450,592	\$ 1,509,423	\$ 48,956	\$ 274,938
Public safety	4,116,005	161,788	142,703	23,988
Highways and streets	2,313,950	-	47,998	-
Public works	81,859	-	-	339,690
Culture and recreation	1,563,986	8,414	1,770	-
Community development	509,797	1,803,778	80,346	118,775
Interest on long-term debt	513,491	-	-	-
Total governmental activities	<u>13,549,680</u>	<u>3,483,403</u>	<u>321,773</u>	<u>757,391</u>
Business-type activities				
Water	1,376,209	1,780,026	-	11,135
Sewer	1,490,388	1,809,021	-	32,896
Sanitation	577,193	610,084	-	88,200
Nonmajor enterprise	247,326	-	-	-
Total business-type activities	<u>3,691,116</u>	<u>4,199,131</u>	<u>-</u>	<u>132,231</u>
Total primary government	<u>\$ 17,240,796</u>	<u>\$ 7,682,534</u>	<u>\$ 321,773</u>	<u>\$ 889,622</u>
General revenues				
Property taxes				
Sales and use taxes				
Franchise taxes				
Shared revenues				
State sales taxes				
Urban revenue sharing				
Auto-in-lieu				
Half-cent sales tax				
Other				
Donation of capital assets				
Investment earnings				
Miscellaneous				
Transfers in (out)				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

Net (Expense) Revenue and Changes in Net Assets

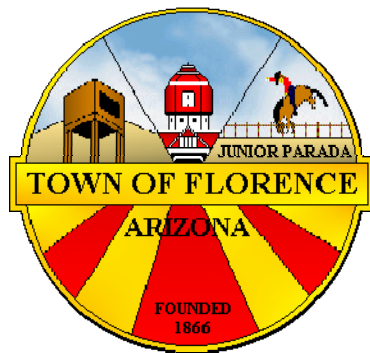
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,617,275)	\$ -	\$ (2,617,275)
(3,787,526)	-	(3,787,526)
(2,265,952)	-	(2,265,952)
257,831	-	257,831
(1,553,802)	-	(1,553,802)
1,493,102	-	1,493,102
(513,491)	-	(513,491)
<u>(8,987,113)</u>	<u>-</u>	<u>(8,987,113)</u>
-	414,952	414,952
-	351,529	351,529
-	121,091	121,091
-	(247,326)	(247,326)
<u>-</u>	<u>640,246</u>	<u>640,246</u>
<u>(8,987,113)</u>	<u>640,246</u>	<u>(8,346,867)</u>
341,664	-	341,664
3,726,230	-	3,726,230
288,426	-	288,426
3,931,924	-	3,931,924
2,330,888	-	2,330,888
1,285,341	-	1,285,341
1,832,893	-	1,832,893
98,502	-	98,502
7,711,966	-	7,711,966
1,239,799	393,180	1,632,979
349,265	81,230	430,495
348,972	(348,972)	-
<u>23,485,870</u>	<u>125,438</u>	<u>23,611,308</u>
14,498,757	765,684	15,264,441
58,584,094	13,098,529	71,682,623
<u>\$ 73,082,851</u>	<u>\$ 13,864,213</u>	<u>\$ 86,947,064</u>

TOWN OF FLORENCE, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

ASSETS	General	Highway User	Impact Fees
Cash and cash equivalents	\$ 4,791,517	\$ 8,223,515	\$ 2,722,005
Receivables (net of allowance for uncollectibles)	983,630	402,102	20,321
Due from other governments	-	-	-
Due from other funds	247,326	-	-
Prepays	377,773	-	-
Restricted assets			
Cash and cash equivalents	-	-	-
Total assets	<u>\$ 6,400,246</u>	<u>\$ 8,625,617</u>	<u>\$ 2,742,326</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 1,756,382	\$ -	\$ -
Customer deposits	156,873	-	-
Accrued wages and benefits	109,030	-	-
Deferred revenue	-	-	158,725
Total liabilities	<u>2,022,285</u>	<u>-</u>	<u>158,725</u>
Fund balances:			
Reserved for			
Debt service	-	-	-
Operations	1,726,339	586,769	-
Unreserved, reported in			
General fund	2,651,622	-	-
Special revenue funds	-	8,038,848	2,583,601
Capital projects funds	-	-	-
Total fund balances	<u>4,377,961</u>	<u>8,625,617</u>	<u>2,583,601</u>
Total liabilities and fund balance	<u>\$ 6,400,246</u>	<u>\$ 8,625,617</u>	<u>\$ 2,742,326</u>



Community Facilities Districts- Debt Service	Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 65,197	\$ 4,435,922	\$ 247,985	\$ 3,898,690	\$ 24,384,831
5,009,318	34,187	1,945	673,677	7,125,180
-	-	-	305,562	305,562
-	200,000	-	-	447,326
-	-	-	-	377,773
411,600	-	3,159,347	-	3,570,947
<u>\$ 5,486,115</u>	<u>\$ 4,670,109</u>	<u>\$ 3,409,277</u>	<u>\$ 4,877,929</u>	<u>\$ 36,211,619</u>
\$ -	\$ -	\$ -	\$ 150	\$ 1,756,532
-	-	-	-	156,873
-	-	-	-	109,030
5,008,500	-	-	634,641	5,801,866
<u>5,008,500</u>	<u>-</u>	<u>-</u>	<u>634,791</u>	<u>7,824,301</u>
-	-	-	159,674	159,674
-	-	-	-	2,313,108
-	-	-	-	2,651,622
477,615	-	-	4,083,464	15,183,528
-	4,670,109	3,409,277	-	8,079,386
<u>477,615</u>	<u>4,670,109</u>	<u>3,409,277</u>	<u>4,243,138</u>	<u>28,387,318</u>
<u>\$ 5,486,115</u>	<u>\$ 4,670,109</u>	<u>\$ 3,409,277</u>	<u>\$ 4,877,929</u>	<u>\$ 36,211,619</u>



TOWN OF FLORENCE, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
June 30, 2007

Fund balance - total governmental funds balance sheet	\$ 28,387,318
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the  
governmental funds.

Governmental capital assets	\$ 59,106,022	
Less accumulated depreciation	<u>(12,416,842)</u>	46,689,180

Long-term liabilities, including bonds payable and their related  
costs, are not due and payable in the current period and therefore  
are not reported in the funds.

Compensated absences	(199,799)	
Capital leases	(88,885)	
Certificate of participation	(710,000)	
Notes payable	(724,790)	
Bond issuance costs	388,365	
Bonds payable	<u>(6,199,000)</u>	(7,534,109)

Deferred revenue is shown on the governmental funds, but is not  
deferred on the statement of net assets.

Special assessments	5,643,141
---------------------	-----------

Interest payable on long-term debt is not reported in the  
governmental funds.

<u>(102,679)</u>
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Net assets of governmental activities - statement of net assets	<u><u>\$ 73,082,851</u></u>
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TOWN OF FLORENCE, ARIZONA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2007

REVENUES	General	Highway User	Impact Fees
Taxes	\$ 3,452,885	\$ 3,813,309	\$ -
Franchise fees	288,426	-	-
Licenses and permits	554,462	-	-
Intergovernmental revenues	5,567,757	98,482	-
Charges for services	1,663,667	-	1,092,741
Fines	70,638	-	-
Special assessments	-	-	-
Investment earnings	148,104	352,344	126,482
Contributions and donations	-	-	-
Miscellaneous	68,391	57,235	-
Total revenues	<u>11,814,330</u>	<u>4,321,370</u>	<u>1,219,223</u>
EXPENDITURES			
Current			
General government	2,902,014	-	-
Public safety	3,748,718	-	-
Highways and streets	-	1,209,696	-
Public works	-	-	-
Culture and recreation	1,349,633	-	-
Community development	490,271	-	186,004
Capital outlay	616,172	418,713	-
Debt service			
Principal	261,466	37,269	-
Interest and fiscal charges	88,226	3,098	-
Total expenditures	<u>9,456,500</u>	<u>1,668,776</u>	<u>186,004</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,357,830</u>	<u>2,652,594</u>	<u>1,033,219</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	643,626	8,065	-
Transfers out	(52,046)	(260,141)	-
Sale of capital assets	9,290	-	-
Proceeds from obligations	-	-	-
Total other financing sources and uses	<u>600,870</u>	<u>(252,076)</u>	<u>-</u>
Net change in fund balances	<u>2,958,700</u>	<u>2,400,518</u>	<u>1,033,219</u>
Fund balances - beginning of year	<u>1,419,261</u>	<u>6,225,099</u>	<u>1,550,382</u>
Fund balances - end of year	<u>\$ 4,377,961</u>	<u>\$ 8,625,617</u>	<u>\$ 2,583,601</u>

See accompanying notes.

Community Facilities Districts- Debt Service	Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 35,334	\$ -	\$ -	\$ 579,675	\$ 7,881,203
-	-	-	-	288,426
-	-	-	-	554,462
-	-	-	732,290	6,398,529
-	-	-	64,609	2,821,017
-	-	-	3,393	74,031
326,577	-	-	118,163	444,740
1,911	202,165	230,405	178,388	1,239,799
-	-	-	7,184	7,184
-	-	-	223,439	349,065
<u>363,822</u>	<u>202,165</u>	<u>230,405</u>	<u>1,907,141</u>	<u>20,058,456</u>
34,093	-	119,331	87,301	3,142,739
-	-	-	145,676	3,894,394
-	-	-	-	1,209,696
-	-	-	2,656	2,656
-	-	-	-	1,349,633
-	-	-	225,683	901,958
-	99,654	1,211,344	415,815	2,761,698
-	25,000	-	30,000	353,735
<u>263,714</u>	<u>-</u>	<u>-</u>	<u>63,375</u>	<u>418,413</u>
<u>297,807</u>	<u>124,654</u>	<u>1,330,675</u>	<u>970,506</u>	<u>14,034,922</u>
66,015	77,511	(1,100,270)	936,635	6,023,534
411,600	-	-	103,598	1,166,889
-	(1,616)	(411,600)	(92,514)	(817,917)
-	-	-	-	9,290
-	-	445,000	-	445,000
<u>411,600</u>	<u>(1,616)</u>	<u>33,400</u>	<u>11,084</u>	<u>803,262</u>
<u>477,615</u>	<u>75,895</u>	<u>(1,066,870)</u>	<u>947,719</u>	<u>6,826,796</u>
-	4,594,214	4,476,147	3,295,419	21,560,522
<u>\$ 477,615</u>	<u>\$ 4,670,109</u>	<u>\$ 3,409,277</u>	<u>\$ 4,243,138</u>	<u>\$ 28,387,318</u>

TOWN OF FLORENCE, ARIZONA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 6,826,796

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense.  
Also, assets contributed to the Town are not reported in the fund  
statements and are reported in the statement of activities.

Contributions	\$ 7,711,966	
Sale of capital assets	(1,685)	
Expenditures for capitalized assets	1,785,165	
Less current year depreciation	<u>(1,513,778)</u>	7,981,668

Revenues received in the current year that were accrued in the  
statement of activities in prior years

Special assessments	(70,957)
---------------------	----------

Interest expense in the statement of activities differs from the amount  
reported in governmental funds because accrued interest was  
calculated for outstanding debt for the statement of activities, but is  
expensed when due for the governmental fund statements.

(2,424)

Repayment of long-term debt are expenditures in the governmental  
funds, but the repayment reduces long-term liabilities in the statement  
of net assets.

Issuance of bond debt	(520,000)	
Bond issuance costs	(17,653)	
Capital lease principal retirement	61,130	
Certificate of participation principal retirement	210,000	
Note payable principal retirement	52,604	
Bond principal retirement	<u>30,000</u>	(183,919)

Compensated absences expenses reported in the statement of activities  
do not require the use of current financial resources and therefore are  
not reported as expenditures in governmental funds.

(52,407)

Change in net assets of governmental activities

\$ 14,498,757

TOWN OF FLORENCE, ARIZONA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 3,102,549	\$ 3,102,549	\$ 3,452,885	\$ 350,336
Franchise fees	248,400	248,400	288,426	40,026
Licenses and permits	1,081,500	1,081,500	554,462	(527,038)
Intergovernmental revenues	5,397,225	5,397,225	5,567,757	170,532
Charges for services	1,554,486	1,554,486	1,663,667	109,181
Fines	51,600	51,600	70,638	19,038
Investment earnings	112,000	112,000	148,104	36,104
Contributions and donations	763,118	763,118	-	(763,118)
Miscellaneous	47,000	47,000	68,391	21,391
Total revenues	<u>12,357,878</u>	<u>12,357,878</u>	<u>11,814,330</u>	<u>(543,548)</u>
EXPENDITURES				
Current				
General government	4,530,016	4,530,016	2,902,014	1,628,002
Public safety	4,876,705	4,876,705	3,748,718	1,127,987
Culture and recreation	1,460,701	1,460,701	1,349,633	111,068
Community development	665,350	665,350	490,271	175,079
Capital outlay	887,768	887,768	616,172	271,596
Debt service				
Principal	260,504	260,504	261,466	(962)
Interest and fiscal charges	89,719	89,719	88,226	1,493
Total expenditures	<u>12,770,763</u>	<u>12,770,763</u>	<u>9,456,500</u>	<u>3,314,263</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(412,885)</u>	<u>(412,885)</u>	<u>2,357,830</u>	<u>2,770,715</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	583,621	583,621	643,626	60,005
Transfers out	(146,050)	(146,050)	(52,046)	94,004
Sale of capital assets	500	500	9,290	8,790
Total other financing sources and uses	<u>438,071</u>	<u>438,071</u>	<u>600,870</u>	<u>162,799</u>
Net change in fund balance	<u>25,186</u>	<u>25,186</u>	<u>2,958,700</u>	<u>2,933,514</u>
Fund balance - beginning of year	-	-	1,419,261	1,419,261
Fund balance - end of year	<u>\$ 25,186</u>	<u>\$ 25,186</u>	<u>\$ 4,377,961</u>	<u>\$ 4,352,775</u>

TOWN OF FLORENCE, ARIZONA  
HIGHWAY USER FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 3,422,829	\$ 3,422,829	\$ 3,813,309	\$ 390,480
Intergovernmental revenues	98,438	98,438	98,482	44
Investment earnings	95,000	95,000	352,344	257,344
Miscellaneous	28,000	28,000	57,235	29,235
Total revenues	<u>3,644,267</u>	<u>3,644,267</u>	<u>4,321,370</u>	<u>677,103</u>
EXPENDITURES				
Current				
Highways and streets	2,069,957	2,069,957	1,209,696	860,261
Capital outlay	4,263,250	4,263,250	418,713	3,844,537
Debt service				
Principal	31,464	31,464	37,269	(5,805)
Interest and fiscal charges	3,260	3,260	3,098	162
Total expenditures	<u>6,367,931</u>	<u>6,367,931</u>	<u>1,668,776</u>	<u>4,699,155</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,723,664)</u>	<u>(2,723,664)</u>	<u>2,652,594</u>	<u>5,376,258</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	8,065	8,065
Transfers out	<u>(503,016)</u>	<u>(503,016)</u>	<u>(260,141)</u>	<u>242,875</u>
Total other financing sources and uses	<u>(503,016)</u>	<u>(503,016)</u>	<u>(252,076)</u>	<u>250,940</u>
Net change in fund balance	<u>(3,226,680)</u>	<u>(3,226,680)</u>	<u>2,400,518</u>	<u>5,627,198</u>
Fund balance - beginning of year	<u>3,226,680</u>	<u>3,226,680</u>	<u>6,225,099</u>	<u>2,998,419</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,625,617</u>	<u>\$ 8,625,617</u>



## TOWN OF FLORENCE, ARIZONA

## IMPACT FEES

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

## BUDGET AND ACTUAL

For The Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Charges for services	\$ 2,825,000	\$ 2,825,000	\$ 1,092,741	\$ (1,732,259)
Investment earnings	133,634	133,634	126,482	(7,152)
Total revenues	<u>2,958,634</u>	<u>2,958,634</u>	<u>1,219,223</u>	<u>(1,739,411)</u>
EXPENDITURES				
Current				
Community development	270,000	270,000	186,004	83,996
Capital outlay	3,552,000	3,552,000	-	3,552,000
Total expenditures	<u>3,822,000</u>	<u>3,822,000</u>	<u>186,004</u>	<u>3,635,996</u>
Excess (deficiency) of revenues over (under) expenditures	(863,366)	(863,366)	1,033,219	1,896,585
Fund balance - beginning of year	<u>863,366</u>	<u>863,366</u>	<u>1,550,382</u>	<u>687,016</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,583,601</u>	<u>\$ 2,583,601</u>

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007

	Business-type Activities-Enterprise Funds		
ASSETS			
Current assets	Water	Sewer	Sanitation
Cash and cash equivalents	\$ 3,466,328	\$ 3,312,196	\$ 223,166
Receivables, net of uncollectibles	224,447	258,032	65,782
Total current assets	<u>3,690,775</u>	<u>3,570,228</u>	<u>288,948</u>
Noncurrent assets			
Capital assets:			
Land	203,988	273,973	-
Buildings and improvements	4,099,417	6,009,254	-
Machinery and equipment	541,554	268,289	972,707
Construction in progress	-	6,577,779	-
Less accumulated depreciation	(2,813,927)	(3,160,172)	(533,608)
Total capital assets, net	<u>2,031,032</u>	<u>9,969,123</u>	<u>439,099</u>
Total noncurrent assets	<u>2,031,032</u>	<u>9,969,123</u>	<u>439,099</u>
Total assets	<u>5,721,807</u>	<u>13,539,351</u>	<u>728,047</u>
LIABILITIES			
Current liabilities			
Customer deposits	56,259	-	-
Due to other funds	-	-	200,000
Retainages payable	-	293,001	-
Deferred revenue	-	-	14,535
Compensated absences	8,251	8,780	3,352
Notes payable	-	276,420	-
Total current liabilities	<u>64,510</u>	<u>578,201</u>	<u>217,887</u>
Noncurrent liabilities			
Notes payable	-	5,017,068	-
Total noncurrent liabilities	<u>-</u>	<u>5,017,068</u>	<u>-</u>
Total liabilities	<u>64,510</u>	<u>5,595,269</u>	<u>217,887</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,031,032	4,675,635	439,099
Restricted for			
Debt service	-	546,778	-
Capital projects	85,671	261,962	-
Unrestricted	3,540,594	2,459,707	71,061
Total net assets	<u>\$ 5,657,297</u>	<u>\$ 7,944,082</u>	<u>\$ 510,160</u>

Business-type Activities Enterprise Funds	
Non-Major Funds	Total
\$ -	\$ 7,001,690
-	548,261
-	7,549,951
-	477,961
-	10,108,671
-	1,782,550
-	6,577,779
-	(6,507,707)
-	12,439,254
-	12,439,254
-	19,989,205
-	56,259
247,326	447,326
-	293,001
-	14,535
-	20,383
-	276,420
247,326	1,107,924
-	5,017,068
-	5,017,068
247,326	6,124,992
-	7,145,766
-	546,778
-	347,633
(247,326)	5,824,036
\$ (247,326)	\$ 13,864,213

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2007

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Operating revenues			
Development fees	\$ 11,135	\$ 32,896	\$ 88,200
Water sales	1,589,114	-	-
Water connection fees	19,315	-	-
Service establishment fees	25,600	-	-
Sewer service fees	-	1,442,217	-
Sewer connection fees	-	28,950	-
DOC usage fees	-	321,941	-
Water standpipe	3,467	-	-
Hydro-sprinkler fees	23,767	-	-
Central Arizona Project	98,304	-	-
Refuse collection fees	-	-	610,084
Effluent charges	4,546	-	-
Miscellaneous	38,402	28,973	45,681
Total operating revenue	<u>1,813,650</u>	<u>1,854,977</u>	<u>743,965</u>
Operating expenses			
Personal services	316,230	343,854	214,597
Supplies	59,673	174,601	91,481
Contractual services and maintenance	830,218	749,561	213,516
Other charges	9,192	42,366	6,472
Depreciation	160,929	160,835	53,033
Total operating expenses	<u>1,376,242</u>	<u>1,471,217</u>	<u>579,099</u>
Operating income (loss)	<u>437,408</u>	<u>383,760</u>	<u>164,866</u>
Nonoperating revenues (expense)			
Interest income	160,767	214,839	17,574
Interest expense	-	(19,171)	-
Gain on sale of assets	33	-	1,906
Total nonoperating revenues (expense)	<u>160,800</u>	<u>195,668</u>	<u>19,480</u>
Income (loss) before transfers	598,208	579,428	184,346
Transfers in	-	-	170,000
Transfers out	(157,692)	(161,532)	(199,748)
Change in net assets	440,516	417,896	154,598
Total net assets-beginning of year	5,216,781	7,526,186	355,562
Total net assets-end of year	<u>\$ 5,657,297</u>	<u>\$ 7,944,082</u>	<u>\$ 510,160</u>

Business-type Activities Enterprise Funds	
Non-Major Funds	Total
\$ -	\$ 132,231
-	1,589,114
-	19,315
-	25,600
-	1,442,217
-	28,950
-	321,941
-	3,467
-	23,767
-	98,304
-	610,084
-	4,546
-	113,056
-	4,412,592
-	874,681
-	325,755
-	1,793,295
247,326	305,356
-	374,797
247,326	3,673,884
(247,326)	738,708
-	393,180
-	(19,171)
-	1,939
-	375,948
(247,326)	1,114,656
-	170,000
-	(518,972)
(247,326)	765,684
-	13,098,529
\$ (247,326)	\$ 13,864,213

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2007

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 1,752,477	\$ 2,419,358	\$ 726,184
Payments to suppliers	(899,083)	(966,528)	(111,469)
Payments to employees	(317,874)	(344,970)	(214,119)
Net cash provided by operating activities	535,520	1,107,860	400,596
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(157,692)	(161,532)	(199,748)
Transfers from other funds	-	-	170,000
Net cash used by noncapital financing activities	(157,692)	(161,532)	(29,748)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from sale of capital assets	33	-	1,906
Acquisition and construction of capital assets	(39,048)	(1,147,797)	(401,483)
Deferred developer revenue	-	-	(87,975)
Proceeds from capital debt	-	508,938	-
Principal paid on capital debt	-	(308,641)	-
Interest paid on capital debt	-	(19,171)	-
Net cash provided by capital and related financing activities	(39,015)	(966,671)	(487,552)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends received	148,746	201,520	15,862
Net cash provided by investing activities	148,746	201,520	15,862
Net increase (decrease) in cash and cash equivalents	487,559	181,177	(100,842)
Cash and cash equivalents at beginning of year	2,978,769	3,131,019	324,008
Cash and cash equivalents at end of year	\$ 3,466,328	\$ 3,312,196	\$ 223,166

See accompanying notes.

Business-type Activities Enterprise Funds	
Non-Major Funds	Total
\$ -	\$ 4,898,019
-	(1,977,080)
-	(876,963)
-	2,043,976
-	(518,972)
-	170,000
-	(348,972)
-	1,939
-	(1,588,328)
-	(87,975)
-	508,938
-	(308,641)
-	(19,171)
-	(1,493,238)
-	366,128
-	366,128
-	567,894
-	6,433,796
<u>\$ -</u>	<u>\$ 7,001,690</u>

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS (CONTINUED)  
For The Year Ended June 30, 2007

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	<u>\$ 437,408</u>	<u>\$ 383,760</u>	<u>\$ 164,866</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation expense	160,929	160,835	53,033
(Increase) decrease in accounts receivable	(45,816)	8,473	(17,781)
(Increase) decrease in due from governments	-	555,908	-
Increase (decrease) in customer deposits	(15,357)	-	-
Increase (decrease) in due to others	-	-	200,000
Increase (decrease) in compensated absences	(1,644)	(1,116)	478
Total adjustments	<u>98,112</u>	<u>724,100</u>	<u>235,730</u>
Net cash provided by operating activities	<u><u>\$ 535,520</u></u>	<u><u>\$ 1,107,860</u></u>	<u><u>\$ 400,596</u></u>



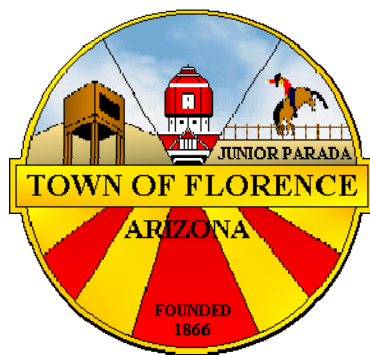
Business-type Activities Enterprise Funds	
Non-Major Funds	Total
<u>\$ (247,326)</u>	<u>\$ 738,708</u>
-	374,797
-	(55,124)
-	555,908
-	(15,357)
247,326	447,326
-	(2,282)
<u>247,326</u>	<u>1,305,268</u>
<u><u>\$ -</u></u>	<u><u>\$ 2,043,976</u></u>

TOWN OF FLORENCE, ARIZONA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2007

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$        254,485</u>
Total assets	<u>254,485</u>
LIABILITIES	
Accounts payable	<u>1,797</u>
Total liabilities	<u>1,797</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$        252,688</u></u>

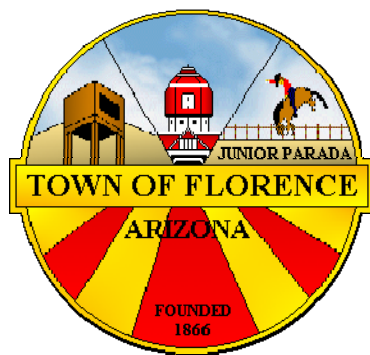
TOWN OF FLORENCE, ARIZONA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2007

	<u>Pension Trust</u>
ADDITIONS	
Contributions	
Employee	\$ 3,891
Total contributions	<u>3,891</u>
Investment earnings	
Interest	<u>10,476</u>
Total investment earnings	<u>10,476</u>
Total additions	<u>14,367</u>
DEDUCTIONS	
Pension withdrawals	<u>9,868</u>
Total deductions	<u>9,868</u>
Change in net assets	4,499
Net assets-beginning of year	<u>248,189</u>
Net assets-end of year	<u>\$ 252,688</u>



## **FINANCIAL SECTION**

### **NOTES TO FINANCIAL STATEMENTS**



TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Florence, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and council. The basic financial statements of the town include the funds of all organizational entities for which the Town Council has oversight responsibility or financial accountability and are consequently determined to be included in the Town's financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, the Financial Reporting Entity. The Town provides basic government services to its citizens including roads, water, sewer, sanitation, parks and recreation facilities, police and fire.

Individual Component Units – Blended

The Merrill Ranch Community Facilities District #1 and Merrill Ranch Community Facilities District #2 were formed by petition to the Town Council on December 19, 2005 and November 21, 2005, respectively. The purpose of the Districts is to acquire or construct public infrastructure in specified areas of the Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the Districts' property taxes, and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors of the Districts. The Town has no liability for the District's debt. For reporting purposes, the transactions of the Districts are included as governmental type funds as if they were part of the Town's operations.

No Separate financial statements were prepared for the Districts.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state-shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for service, special assessments and investment income associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds:

General Fund - This fund is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway User Fund – Special Revenue Fund - This fund is used to account for the Town's share of tax revenues that are legally restricted to the maintenance of highways within the Town's boundaries.

Impact Fees Fund - This fund collects fees to help defray the costs of development of infrastructure.

Community Facilities Districts - Debt Service Fund - This fund accounts for the debt portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

Capital Improvement Fund - This fund accounts for all the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Community Facilities Districts - Capital Improvements Fund - This fund accounts for all the acquisition and construction portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major proprietary funds:

Water Fund - This fund is used to account for the Town's water related operations.

Sewer Fund - This fund is used to account for the Town's sewer related operations.

Sanitation Fund - This fund is used to account for the activities of the Town's sanitation operations.

The Town reports the following fiduciary fund:

Pension Trust Fund - This Pension Trust Fund is used to account for the Town's Volunteer Firefighter's Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity. The Town, as well as, the Town's firefighters make contributions to the fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Town follows GASB guidance as applicable to its proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprises fund are charges to customers for water, wastewater, and sanitation services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town's non-major funds are as follows:

Special Revenue Funds

Construction Tax

Food Tax

Economic Development

Court Enhancement

Grants

Community Facilities Districts

Debt Service Funds

Debt Service Fund

Proprietary Funds

East Florence Water

East Florence Sewer

Fiduciary funds are reported by fund type.

D. Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Town upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

E. Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principle and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The State's investment pool is managed by the State Treasurer's office with no regulatory oversight. The pool is not required to register with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The fair value of a participant's position in the pool approximates the value of that participant's pool share.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans).

All trade and property tax receivables are shown net of allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivables allowance for uncollectibles.

Property taxes are levied by the Town and collected by the Pinal County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquent date. Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

G. Prepaid Items

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20-70
Vehicles, machinery and equipment	3-10

I. Compensated Absences

The Town's employee vacation and sick leave policies provide for granting vacation and sick leave with pay. Sick leave and vacation benefits vest at the employee's current rate of pay. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation and retirements. Resources from the General Fund are generally used to liquidate the governmental funds liabilities for compensated absences.

J. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of the fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management's intended use of resources and reflect actual plans approved by the government's senior management. At June 30, 2007, the Town reserved fund balance for several various purposes. There are no reported designations.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

At June 30, 2007, the Town had \$1,400 of cash on hand. The carrying amount of the Town's cash in bank totaled \$3,273,590 and the bank balance was \$3,468,590. The Town's deposits at June 30, 2007 were covered by Federal Depository Insurance to the extent of \$200,000. Deposits of \$3,268,590 were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the depositor-government's name.

Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The Town invests in the Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 240 days. The net asset value per share of the pool at June 30, 2007 was \$1.00.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 2 CASH AND INVESTMENTS (Continued)

Funds held in the State Treasurer's Local Government Investment Pool represent a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk. At June 30, 2007, the Town's funds invested with the State Treasurer totaled \$28,111,531.

The Town's Community Facilities Districts have \$3,570,947 invested with Wells Fargo Brokerage Services. The accounts are invested in a money market fund that invests in U.S. government obligations and repurchase agreements.

Other investments that the Town owns belong to the Town's Volunteer Fire Department. These funds are held by Securian Retirement Services and consist of a money market fund and a variable annuity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of Town's investments by maturity:

Investment Type	Total	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Primary Government					
Money Market Funds	\$ 3,570,947	\$ 3,570,947	\$ -	\$ -	\$ -
LGIP	28,111,531	28,111,531			
	<u>31,682,478</u>	<u>31,682,478</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Fund					
Money Market Funds	40,719	40,719	-	-	-
Variable Annuity	213,766	-	-	213,766	-
	<u>254,485</u>	<u>40,719</u>	<u>-</u>	<u>213,766</u>	<u>-</u>
Total	<u>\$ 31,936,963</u>	<u>\$ 31,723,197</u>	<u>\$ -</u>	<u>\$213,766</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 2 CASH AND INVESTMENTS (Continued)

Investment Type	Total	Ratings as of Year-End			
		AAA	AA-	A+	Unrated
Primary Government					
Money Market Funds	\$ 3,570,947	\$ -	\$ -	\$ -	\$ 3,570,947
LGIP	28,111,531				28,111,531
	<u>31,682,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,682,478</u>
Fiduciary Fund					
Money Market Funds	40,719	-	-	-	40,719
Variable Annuity	213,766	-	213,766	-	-
	<u>254,485</u>	<u>-</u>	<u>213,766</u>	<u>-</u>	<u>40,719</u>
Total	<u>\$31,936,963</u>	<u>\$ -</u>	<u>\$ 213,766</u>	<u>\$ -</u>	<u>\$ 31,723,197</u>

NOTE 3 RECEIVABLES

Receivables, net of allowance for uncollectibles as of year-end for the Town's individual major governmental funds, nonmajor governmental funds in the aggregate are as follows:

	General Fund	Highway User Fund	Impact Fees	Capital Improvements	Non-Major Governmental Funds
Receivables:					
Taxes	\$ 805,495	\$ 329,930	\$ -	\$ -	\$ -
Interest	30,855	65,850	20,321	-	31,389
Accounts	147,280	6,322	-	34,187	7,647
Special assessments	-	-	-	-	634,641
	<u>983,630</u>	<u>402,102</u>	<u>20,321</u>	<u>34,187</u>	<u>673,677</u>
Less:					
Allowance	-	-	-	-	-
Net receivables	<u>\$ 983,630</u>	<u>\$ 402,102</u>	<u>\$ 20,321</u>	<u>\$ 34,187</u>	<u>\$ 673,677</u>

The following table summarizes the Town's receivables for the Community Facilities Districts and total governmental funds as of June 30, 2007.



TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 3 RECEIVABLES (Continued)

	Community Facilities Districts- Debt Service	Community Facilities Districts- Capital Improvements	Total Governmental Funds
Receivables:			
Taxes	\$ -	\$ -	\$ 1,135,425
Interest	818	1,945	151,178
Accounts	-	-	195,436
Special			-
assessments	5,008,500	-	5,643,141
	<u>5,009,318</u>	<u>1,945</u>	<u>7,125,180</u>
Less:			
Allowance	-	-	-
Net receivables	<u>\$ 5,009,318</u>	<u>\$ 1,945</u>	<u>\$ 7,125,180</u>

The following table summarizes the Town's receivables for the enterprise funds as of June 30, 2007.

	Water Fund	Sewer Fund	Sanitation Fund	Total
Receivables:				
Interest	\$ 27,804	\$ 32,226	\$ 3,450	\$ 63,480
Due from other governments	-	-	-	-
Accounts	199,146	227,292	64,094	490,532
	<u>226,950</u>	<u>259,518</u>	<u>67,544</u>	<u>554,012</u>
Less:				
Allowance	(2,503)	(1,486)	(1,762)	(5,751)
Net receivables	<u>\$ 224,447</u>	<u>\$ 258,032</u>	<u>\$ 65,782</u>	<u>\$ 548,261</u>

Revenues of the enterprise funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water	\$ 702
Uncollectibles related to sewer	449
Uncollectibles related to sanitation	<u>284</u>
Total uncollectibles for the current year	<u>\$ 1,435</u>

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 4 CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2007 follows.

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 21,233,192	\$ 6,880,166	\$ -	\$ 28,113,358
Construction in progress	617,184	403,156	-	1,020,340
Total capital assets not being depreciated	21,850,376	7,283,322	-	29,133,698
Capital assets, being depreciated:				
Buildings and improvements	23,211,491	1,188,326	-	24,399,817
Vehicles, furniture and equipment	4,648,659	1,025,483	(101,635)	5,572,507
Total capital assets being depreciated	27,860,150	2,213,809	(101,635)	29,972,324
Less accumulated depreciation for:				
Buildings and improvements	(7,809,107)	(1,112,804)	-	(8,921,911)
Vehicles, furniture and equipment	(3,193,907)	(400,974)	99,950	(3,494,931)
Total accumulated depreciation	(11,003,014)	(1,513,778)	99,950	(12,416,842)
Total capital assets, being depreciated, net	16,857,136	700,031	(1,685)	17,555,482
Governmental activities capital assets, net	<u>\$ 38,707,512</u>	<u>\$ 7,983,353</u>	<u>\$ (1,685)</u>	<u>\$ 46,689,180</u>
<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 394,073	\$ -	\$ -	\$ 394,073
Construction in progress	5,136,983	1,524,684	-	6,661,667
Total capital assets not being depreciated	5,531,056	1,524,684	-	7,055,740
Capital assets, being depreciated:				
Buildings	5,409,967	-	-	5,409,967
Improvements other than buildings	4,743,545	-	(44,841)	4,698,704
Vehicles, machinery and equipment	1,501,477	401,486	(120,409)	1,782,554
Total capital assets being depreciated	11,654,989	401,486	(165,250)	11,891,225
Less accumulated depreciation for:				
Buildings	(4,439,936)	(233,227)	-	(4,673,163)
Improvements other than buildings	(576,143)	(59,821)	-	(635,964)
Vehicles, machinery and equipment	(1,237,244)	(81,749)	120,409	(1,198,584)
Total accumulated depreciation	(6,253,323)	(374,797)	120,409	(6,507,711)
Total capital assets, being depreciated, net	5,401,666	26,689	(44,841)	5,383,514
Business-Type activities capital assets, net	<u>\$ 10,932,722</u>	<u>\$ 1,551,373</u>	<u>\$ (44,841)</u>	<u>\$ 12,439,254</u>

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 4 CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 131,625
Public safety	292,475
Highway and streets	1,027,541
Culture and recreation	62,137
Total depreciation expense	<u>\$ 1,513,778</u>
Business-type activities	
Water	\$ 160,929
Sewer	160,835
Sanitation	53,033
Total depreciation expense	<u>\$ 374,797</u>

NOTE 5 CAPITAL LEASES

The town has entered into lease agreements for capital purchases. This lease provides bargain purchase options and transfer of title at the end of the lease term. The assets have been capitalized at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through capital lease are as follows:

Asset:	
Machinery and Equipment	\$ 209,340
Less: accumulated depreciation	(172,864)
Total	<u>\$ 36,476</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2008	32,421	2,303
2009	33,408	1,317
2010	23,056	323
Total	<u>\$ 88,885</u>	<u>\$ 3,943</u>

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 6 CERTIFICATES OF PARTICIPATION

On January 30, 1997, certificates of participation totaling \$2,495,000 were issued. The certificates evidence undivided proportionate interests in lease payments to be made under a lease agreement. The proceeds of the certificates were used by the Town for the construction of the town hall and other facilities. The certificates bear interest at rates from 3.75 – 5.40 percent, payable semiannually.

The certificates of participation as of June 30, 2007, will mature as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2008	\$ 225,000	\$ 32,153
2009	235,000	19,845
2010	250,000	6,750
Total	<u>\$ 710,000</u>	<u>\$ 58,748</u>

NOTE 7 NOTES PAYABLE

The Town has a note payable to a private party for the purchase of land. The note is payable in annual installments of \$69,748 including interest at 6%. The note is secured by a deed of trust, assignments of rents, security agreement and fixture filings. The balance was \$674,790 at June 30, 2007.

In December 2006, the Town signed a \$75,000 real estate contract with the Florence Preservation Foundation for the purchase of the Silver King Hotel located in Florence, Arizona. The Town paid \$25,000 at closing and will pay annual installments of \$25,000 in 2008 and 2009. No interest is computed.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of a new sewer plant. As of June 30, 2007, the Town could borrow up to \$7,500,000. As of June 30, 2007, the Town has an outstanding balance of \$5,293,488. Payments are due semi-annually including interest at 3.339%.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 7 NOTES PAYABLE (Continued)

The annual debt service requirements to maturity as of June 30, 2007, are as follows:

Year Ending, June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 54,260	\$ 40,487	\$ 276,420	\$ 191,097
2009	56,016	38,732	285,650	181,867
2010	32,877	36,871	295,187	172,330
2011	34,849	34,898	305,044	162,473
2012	36,940	32,807	315,229	152,288
2013 - 2017	220,731	128,008	1,741,236	596,350
2018 - 2022	289,117	53,351	2,074,722	262,860
Total	<u>\$ 724,790</u>	<u>\$ 365,154</u>	<u>\$ 5,293,488</u>	<u>\$ 1,719,265</u>

NOTE 8 BONDS PAYABLE

Bonds payable at June 30, 2007, consisted of the outstanding special assessment bonds presented below.

The bonds issued in 1994 to acquire Arizona Sierra Utility have an outstanding principal of \$735,000. The bonds are secured and payable from special assessments levied against the real property benefited by said improvements. If the assessments are not paid, the properties subject to such assessments are sold at auction. If there is no purchaser for any property offered for sale, the Town will get ownership of the property subject to any tax liens and will be liable for the remaining debt. The Town Council is required to appropriate from the General Fund of the Town the amount of the total unpaid assessments or the amount of each semiannual assessment until the total debt is paid.

Community Facilities Districts (CFDs), special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the Town, are authorized under state law to issue General Obligation (GO) bonds to be repaid by property taxes levied on property within the districts. CFDs are created by petition of the Town Council by property owners within the area to be covered by the district and debt may be issued only after approval of the voters within the district.

In June 2006 the Merrill Ranch Community Facilities District #2 issued \$2,464,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 8 BONDS PAYABLE (Continued)

In June 2006 the Merrill Ranch Community Facilities District #1 issued \$2,555,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In November 2006 the Merrill Ranch Community Facilities District #1 issued \$194,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In October 2006 the Merrill Ranch Community Facilities District #2 issued \$251,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

A summary of long-term bond debt payable at June 30, 2007, follows:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2007	Due Within One Year
Special Assessment	8.45%	01/01/19	\$ 735,000	\$ 40,000
Special Assessment	4.30 - 5.30%	07/01/30	2,555,000	60,000
Special Assessment	4.30 - 5.30%	07/01/30	2,464,000	59,000
CFD GO Bond #1	5.40%	07/15/31	194,000	7,000
CFD GO Bond #2	5.30%	07/01/31	251,000	9,000
Total			<u>\$ 6,199,000</u>	<u>\$ 175,000</u>

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 9 CHANGES IN LONG-TERM LIABILITIES

Annual debt service requirements to maturity on governmental bonds payable at June 30, 2007 are summarized as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 175,000	\$ 340,879
2009	174,000	331,715
2010	185,000	321,990
2011	190,000	311,674
2012	206,000	300,754
2013 - 2017	1,224,000	1,306,212
2018 - 2022	1,302,000	921,630
2023 - 2027	1,531,000	573,308
2028 - 2032	1,212,000	134,802
Total	<u>\$ 6,199,000</u>	<u>\$4,542,963</u>

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable	\$ 5,784,000	\$ 445,000	\$ 30,000	\$ 6,199,000	\$ 175,000
Notes payable	702,394	75,000	52,604	724,790	54,260
Certificates of participation	920,000	-	210,000	710,000	225,000
Capital leases	150,016	-	61,131	88,885	32,421
Compensated absences	147,392	240,912	188,505	199,799	199,799
Governmental activities long-term liabilities	<u>\$ 7,703,802</u>	<u>\$ 760,912</u>	<u>\$ 542,240</u>	<u>\$ 7,922,474</u>	<u>\$ 686,480</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Notes payable	\$ 5,093,191	\$ 508,938	\$ 308,641	\$ 5,293,488	\$ 276,420
Compensated absences	22,665	16,362	18,643	20,383	20,383
Business-type activities long-term liabilities	<u>\$ 5,115,856</u>	<u>\$ 525,300</u>	<u>\$ 327,284</u>	<u>\$ 5,313,871</u>	<u>\$ 296,803</u>

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2007, there were the following interfund balances.

Interfund receivable/payable:

Fund	Receivable Amount	Payable Amount
General Fund	\$ 247,326	\$ -
Capital Improvements	200,000	-
Sanitation	-	200,000
Non-Major Enterprise	-	247,326
Total	<u>\$ 447,326</u>	<u>\$ 447,326</u>

Interfund transfers:

Fund	Transfers Out	Transfers In
General Fund	\$ 52,046	\$ 643,626
Highway User	260,141	8,065
CFD Debt Service	-	411,600
CFD Capital Improvements	411,600	-
Capital Improvements	1,616	-
Non-Major Governmental Funds	92,514	103,598
Water	157,692	-
Sewer	161,532	-
Sanitation	199,748	170,000
Total	<u>\$ 1,336,889</u>	<u>\$ 1,336,889</u>

All transfers made during the year were routine in nature and consistent with the activities of the fund making the transfer.

NOTE 11 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by the Workers' Compensation Insurance Fund for potential worker-related accidents.



TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 12 CONTINGENT LIABILITIES

Federal and State grants and loans – The Town has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2007; however, the Town expects no material disallowances of expenditures.

NOTE 13 RETIREMENT PLANS

All full-time Town employees are covered by one of two contributory retirement and pension plans, which are administered by the State of Arizona under State Statute.

Arizona State Retirement Plan

Plan Description - The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the years ended June 30, 2007, 2006 and 2005 active ASRS members and the Town were each required by statute to contribute at the actuarially determined rates of 9.1, 7.4 and 5.7 percent (rate includes .50 for long-term disability) respectively of the member's annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2007, 2006, and 2005 were \$292,965, \$195,721, and \$134,019, respectively, which were equal to the required contributions for the year.

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 13 RETIREMENT PLANS (Continued)

Arizona Public Safety Personnel Retirement System

Plan Description - The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Town contributes to one PSPRS plan for police and one for firefighters. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling 602-255-5575.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2007, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 6.78% and 7.22% of the covered payroll to the Plan for the Police and Firefighters, respectively.

The most recent actuarial valuation available is for fiscal year end June 30, 2006.

Annual Pension Cost - The Town's pension cost for the agent plan for the year ended June 30, 2007, and related information follows:

	<u>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Actuarial valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Projected Unit Cost	Projected Unit Cost
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.5 – 8.5%	5.5 – 8.5%
Includes inflation at cost-of-living adjustment	5%	5%
Amortization method	Level Percent Open	Level Percent Open
Remaining amortization period	Open 20 Years	Open 20 Years
Asset valuation method	Smoothed Market	Smoothed Market
Post retirement benefit increases	Based on Income	Based on Income

TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 13 RETIREMENT PLANS (Continued)

Trend Information - Information for the PSPRS plan as of the most recent actuarial valuations follows:

Plan	Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - Police	2006	\$43,042	100.0%	-
	2005	18,941	100.0%	-
	2004	14,089	100.0%	-
PSPRS - Fire	2006	25,520	100.0%	-
	2005	33,764	100.0%	-
	2004	31,484	100.0%	-

Funding Progress - An analysis of funding progress for each of the agent plan as most recent actuarial valuations, June 30, 2007 follows:

PSPR - Florence Police Plan:

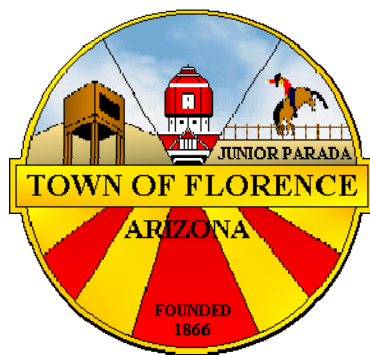
Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2006	\$2,146,461	\$1,930,848	\$215,613	111.2%	\$1,230,733	0%
2005	1,939,292	1,572,005	367,287	123.4%	769,972	0%
2004	1,836,298	1,078,747	757,551	170.2%	722,939	0%

PSPR - Florence Fire Plan:

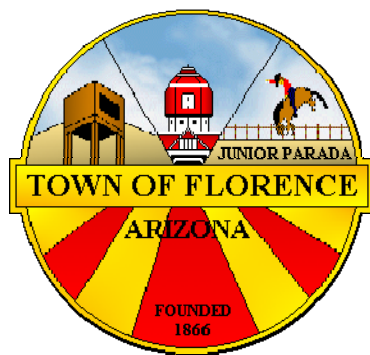
Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2006	\$ 486,597	\$ 324,180	\$162,417	150.1%	\$ 511,854	0%
2005	408,330	229,415	178,915	178.0%	411,205	0%
2004	389,215	245,967	143,248	158.2%	312,594	0%

NOTE 14 DEFICIT NET ASSETS

The non-major enterprise fund had a deficit net asset balance of \$247,326 at June 30, 2007. Revenues are expected in 2008 to cover this deficit.



## **COMPLIANCE REPORT**





REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

The Honorable Mayor and Council  
Town of Florence, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the "Town"), as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Florence's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town of Florence's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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Fax (480) 839-1749

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Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

Casa Grande  
711 E. Cottonwood Lane  
Suite C  
Casa Grande, AZ 85222-2725  
(520) 836-8201  
Fax (520) 426-9432

Pinetop  
Post Office Box 527  
Pinetop, AZ 85935-0527  
(928) 367-2591  
Fax (928) 367-3501

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the audit committee, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Greg. Hone, CPA". The signature is stylized with a large initial "G" and "H".

October 11, 2007